

To the Members of the California State Senate:

I am returning Senate Bill 1850 without my signature.

I support the intent of this measure to detect fraud in the Medi-Cal program and have sponsored or supported a number of measures to further strengthen the Department of Health Services' (DHS) capacity to crack down on Medi-Cal provider and beneficiary fraud.

Notwithstanding my commitment to Medi-Cal fraud prevention, legislation is not required to perform the risk assessment and analysis required by SB 1850. This bill would mandate that specific types of risk-assessment tests be conducted. While this testing procedure may be viable today, fraud detection methodologies need to be dynamic to keep up with the rapidly changing fraud trends. By mandating in statute this specific type of analysis on a widespread and routine basis, DHS would have to make system changes that would have a significant cost. DHS currently performs field audits followed up with recoveries, utilization controls, and, if evidence of fraud is found, provider sanctions such as temporary suspensions.

During these tough budget times, legislation that impacts the General Fund must be weighed against programs that already exist in DHS that are effectively combating fraud and abuse in the Medi-Cal program. DHS would incur a total cost of \$1,924,165 for the first year with ongoing annual costs of \$1,440,000 to implement the provisions of this bill.

A budget augmentation approved by the Legislature in fiscal year 2003-04 provided for an Error Rate Study to be conducted by DHS to determine the areas of vulnerability through statistical sampling and evaluation of Medi-Cal claims. This study will be completed this fall. Until the Error Rate Study is completed, legislating specific analysis and review requirements is premature and a cost benefit cannot be calculated.

For these reasons I am returning this bill without my signature.

Sincerely,

Arnold Schwarzenegger